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City of Miami Beach Retirement Plan Overview

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James W. Linn

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Big Picture

- Miami Beach, like many Florida cities, is facing extreme challenges of
 - declining revenues and
 - increasing costs
- Among the largest costs facing the City is the cost of employee pension plans

Miami Beach

Fire/Police Pension Benefit Examples

- Police officer retires with 25 years* service:
 - Monthly pension – \$7,288 (\$87,456/year)
 - DROP benefit – \$282,000 (lump sum)
 - Share Plan – \$ 58,000 (lump sum)
- Firefighter retires with 25 years* service:
 - Monthly pension – \$8,259 (\$99,108/year)
 - DROP benefit – \$325,000 (lump sum)
 - Share Plan – \$124,000 (lump sum)

* Plus purchase of additional 6% benefit

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Miami Beach

General Employee Pension Benefit Examples

- Employee with final avg. earnings of \$88,000 retires with 30 years service:
 - Monthly pension – \$6,600 (\$79,200/year)
 - DROP benefit – \$275,000 (lump sum)
- Employee with final avg. earnings of \$54,000 retires with 26 years service:
 - Monthly pension – \$3,510 (\$42,120/year)
 - DROP benefit – \$144,000 (lump sum)

Current City Pension Costs

Fire/Police Pension Fund

- \$20.3 million this year (FY 2008-09)
- 50% of payroll this year
- Next year: \$23.1 million (56.5% of payroll)

General Pension Fund (MBERP)

- \$12.86 million this year (FY 2008-09)
- 21.57% of payroll this year
- Next year: \$17.1 million (25.2% of payroll)

Unfunded City Pension Liabilities

General Pension Fund (MBERP)

Unfunded Actuarial Accrued Liability
as of 10/1/08: **\$100 million**

Fire/Police Pension Fund

Unfunded Actuarial Accrued Liability
as of 10/1/07: **\$137 million**
(and likely much greater as of 10/1/08)

Impact of “Economic Tsunami”

- Most public pension plans had investment losses of between 10% and 15% in year ending 9/30/08
- Most public pension plans have had investment losses of between 15% and 25% since 10/1/08
- What does this mean for Miami Beach’s Pension Funds?

Impact of “Economic Tsunami”

Fire/Police Pension Fund

- Mkt value of assets 10/1/07: \$571 million
- Mkt value of assets 10/1/08: \$496 million
- Mkt value of assets 12/31/08: \$454 million

15 month loss: \$117 million (-20%)

Impact of “Economic Tsunami”

General Pension Fund

- Mkt value of assets 10/1/07: \$430 million
- Mkt value of assets 10/1/08: \$364 million
- Mkt value of assets 12/31/08: \$311 million

15 month loss: \$119 million (-27.6%)

5 Year Smoothing - Example

- Assumed rate of return = 8.5%
- Actual return = minus 10.4%
- Actuarial Loss = minus 18.9%
 $[(\text{Minus } 8.5\%) + (\text{minus } 10.4\%)] = \text{minus } 18.9\%$
- $18.9/5 = 3.8$
- Minus 3.8% will be recognized each year for the next 5 years
- Result: required contributions will likely increase

Impact of “Economic Tsunami”

- If no changes are made, City pension costs will likely increase dramatically beginning 10/1/09, and each year for the next 5 years.
- The actuarial assumptions that have driven City pension costs for the past 20 years may be unrealistic. Adopting more realistic assumptions will add to City pension costs.

What Are the Options to Contain Pension Costs?

- No “silver bullet”
- Keep current City pension plans, but:
 - Reduce benefits
 - Increase employee contributions
- Terminate, freeze or close current City pension plans, and set up lower cost plans

How Pension Plans Work

2 types of plans:

- **Defined benefit** – benefits based on a formula:
years service x avg. final earnings x benefit factor
- **Defined contribution** – individual accounts made up of employer and employee contributions, plus investment earnings. Benefits are based on whatever is in the account.

How Pension Plans Work

- **Defined benefit** – City bears risk of investment loss. By law, City must fund the plan on a “sound actuarial basis.”
- **Defined contribution** – employees bear risk of investment loss. City’s cost limited to whatever City decides to contribute (i.e., **no actuarial surprises**).

How Pension Plans Work

The City Plans are defined benefit plans

City's contribution requirements determined by actuary:

- Value of promised benefits
- Allocated over 30 years
- Based on assumptions

Key Actuarial Assumptions

	<u>Invest.</u>	<u>Salary</u>
	<u>Return</u>	<u>Increase</u>
Fire/Police	8.5%	4.9%
General	8.5%	6.0%
FRS	7.75%	varies

Investment Earnings

- Majority of pension funding is assumed to come from investment earnings – not contributions

Actual Investment Earnings v. Assumption

	<u>Actual*</u>	<u>Assumed</u>
Fire/Police	6.07%	8.5%
General	6.4 %	8.5%

*7 year average

Salary Increase

Actual Salary Increase v. Assumption

	<u>Actual (7yr. Avg)</u>	<u>Assumed</u>
Fire/Police:	7.65%	4.90%
General:	6.05%	6.0%



What happens if assumptions aren't met?

- Actuarial Loss
- Increase in unfunded actuarial liabilities
- Increase in required contributions
- Because employee contributions are fixed, City contributions go up

Facts

- The Miami Beach Fire/Police Pension Plan did not meet its actuarial assumptions, and suffered actuarial losses as a result, each year for the 5 years between 2002 and 2007.
- Due to investment losses, the next 2 years are expected to be much worse.

Ch. 175/185 Premium Taxes

- Chapters 175 and 185, F.S. provide for a rebate of the state excise tax on property and casualty insurance premiums to cities that have local pension plans for police officers and firefighters.
- The premium tax monies must be used exclusively for police and firefighter pensions, and the local pension plan must comply with the requirements of Chapters 175 and 185.

Ch. 175/185 Premium Taxes

- In 2008 the City received **\$2.3 million** in premium tax revenues.
- But nearly all of this money went to separate fire and police “share plans,” not to the City’s pension fund for firefighters and police officers (**\$1.7 million to the fire share plan and \$487K to the police share plan**).

Ch. 175/185 Premium Taxes

Fire and Police “Share Plans” -- Facts

- Approximately 18 Florida cities have share plans for their police officers and firefighters.
- The other 160+ cities with Ch. 175/185 police/fire pension plans use premium tax revenues to offset their pension costs.

Ch. 175/185 Premium Taxes

Fire and Police “Share Plans”

- Provide an additional benefit to retiring firefighters and police officers.
- Premium tax monies are allocated to individual member accounts in accordance with a formula contained in the plan.
- Share account monies are invested; member accounts are credited each year with investment gains (losses).

Ch. 175/185 Premium Taxes

Miami Beach Fire and Police “Share Plans”

- Share plan distributions to retiring firefighters typically exceed \$100,000.
- Share plan distributions to retiring police officers are typically in the \$50,000 to \$60,000 range.